



City of Houston General Fund Five Year Planning Scenario

Presentation to Budget and Fiscal Affairs Committee

April 4, 2006



OVERVIEW

- This is a planning scenario for analysis. The purpose is to highlight the financial issues facing us over the next few years and review the options.
- This is NOT an outline of next year's budget.
- The Mayor will propose a balanced budget for FY07!



OVERVIEW

- Base period is FY06; Five year period begins in FY07 and ends with FY11. All figures are in thousands.
- Expenditures are projected in these categories: known legal mandates, staffing for new facilities, and contractual escalators.
- Employee compensation and benefits projected by Finance and Administration and Human Resources Departments.
- Capital outlay and equipment acquisition are not included. Debt service assumes the level of capital improvement in the FY06 to FY10 CIP.

Summary from Two Years Ago

	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>
Beginning Balance	78,209	83,027	84,754	78,000	78,000	78,000	78,000
Property Tax Revenues	636,028	658,535	674,998	701,998	730,078	759,281	789,653
Sales Tax	322,538	337,839	363,628	381,264	391,596	406,555	424,281
Franchise Revenue	76,605	161,315	160,668	161,086	161,548	162,054	162,605
Other Revenues	315,568	233,039	234,725	236,513	238,403	240,337	242,314
Total Revenues	1,350,739	1,390,728	1,434,019	1,480,861	1,521,626	1,568,227	1,618,852
Total Operating Expenditures	1,199,766	1,230,801	1,387,101	1,506,827	1,558,877	1,592,421	1,616,826
Transfers for Debt Service	178,000	165,000	191,302	213,461	242,415	252,112	262,196
Total Expenditures	1,377,766	1,395,801	1,578,403	1,720,288	1,801,292	1,844,532	1,879,022
Net	(27,027)	(5,073)	(144,384)	(239,427)	(279,666)	(276,305)	(260,170)
Transfers from Other Funds	34,440	6,800	2,000	2,000	2,000	2,000	2,000
Change in reserves	(2,595)						
The Gap FY05			(137,630)	(137,630)	(137,630)	(137,630)	(137,630)
The Gap FY06				(101,797)	(101,797)	(101,797)	(101,797)
The Gap FY07					(40,240)	(36,878)	(20,744)
Ending Fund Balance	83,027	84,754	78,000	78,000	78,000	78,000	78,000

Last Year's Summary

	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>
Beginning Balance	83,027	88,186	88,364	88,364	88,364	88,364	88,364
Property Tax Revenues	660,999	672,000	690,000	715,875	742,720	770,572	801,395
Sales Tax	347,982	373,000	398,215	413,387	434,552	460,365	487,112
Franchise Revenue	161,379	163,268	162,027	161,342	161,880	162,462	161,642
Other Revenues	229,852	243,995	248,043	251,033	253,132	255,290	257,500
Total Revenues	1,400,212	1,452,263	1,498,285	1,541,637	1,592,284	1,648,689	1,707,649
Proceeds of Pension Bonds	0	47,727	54,435	49,043	20,000	10,000	0
Transfers and Other	5,943	3,000	0	0	0	0	0
Total Revenues and Sources	1,406,155	1,502,990	1,552,720	1,590,680	1,612,284	1,658,689	1,707,649
Total Operating Expenditures	1,235,996	1,314,812	1,380,677	1,422,310	1,457,236	1,489,741	1,515,485
Transfers for Debt Service	165,000	188,000	198,000	203,000	225,000	234,000	244,000
Total Expenditures	1,400,996	1,502,812	1,578,677	1,625,310	1,682,236	1,723,741	1,759,485
Net Activity (The Gap)	5,159	178	(25,957)	(34,630)	(69,952)	(65,052)	(51,836)
Ending Fund Balance	88,186	88,364	88,364	88,364	88,364	88,364	88,364



Progress Made Over Two Years

- Strong management of health care cost
- Implemented debt restructuring
- Changes in pension plans and financing
- Revision and extension of Police contract
- Restructuring and adoption of affordable CIP
- Fire Collective Bargaining Agreement
- Property tax rate reduction
- New electric franchise agreement
- Renegotiated GLO electricity contract



Revenue Projections

- Property tax revenues—
 - Based on the Harris County Appraisal District's estimates of value, using the mid-range projection for FY2007, 4% growth less a 0.25% decrease for Senior Exemption for FY2008 thru FY2009, and 4% for FY2010.
 - Net of tax increment zone payments and including delinquent collections, this is a 3.9% increase in revenues for FY07.
- Industrial assessments—
 - Trends indicate slightly lower property values and lower inventory levels.



Revenue Projections

- Sales tax revenues—
 - Growth estimates from Dr. Barton Smith's April 1 report, less 1% for FY07.
- Franchise Revenues—
 - Electric franchise revenues based on 1.5% growth in KWH.
 - Telephone franchise revenues based on continued decline.
 - Gas franchise revenues assume current levels for gas prices and a 1% after FY2007.
 - Other franchise revenues at 1% to 2% growth.



Revenue Projections

- Intergovernmental Revenues
 - Assumes \$22 million Metro reimbursement under the General Mobility Agreement with Metro. (Same as FY06)
- Licenses & Permits
 - Assumes 1% growth.



Revenue Projections

- Charges for Services
 - Includes ambulance revenues, platting fees, parking fees.
 - Assumes ambulance at FY06 Budget level of \$24.2 million, and the other charges for services at 2% growth.

- Fines & Forfeits
 - Assumes 3.0% growth in Municipal Courts Fines & Forfeits.

Revenue Summary

Summary	FY2005 Actual	FY2006 Estimate	FY2007 Projection	FY2008 Projection	FY2009 Projection	FY2010 Projection	FY2011 Projection
Property Tax	671,294	692,943	719,754	746,708	774,779	805,770	837,941
Sales Tax	370,583	404,298	428,948	458,159	490,414	526,018	564,522
Franchise Fees	162,263	174,077	181,813	182,120	182,974	183,904	184,911
Other revenue	245,936	248,886	245,298	248,538	251,942	255,514	259,260
Total Revenues	1,450,076	1,520,204	1,575,813	1,635,525	1,700,109	1,771,207	1,846,634

Percentage Increase

Revenue Increase

4.84%	3.66%	3.79%	3.95%	4.18%	4.26%
70,128	55,609	59,712	64,584	71,098	75,427

Revenue Projections

	<u>FY2005</u> Actual	<u>FY2006</u> Estimate	<u>FY2007</u> Projection	<u>FY2008</u> Projection	<u>FY2009</u> Projection	<u>FY2010</u> Projection	<u>FY2011</u> Projection
Property Tax	671,294	692,943	719,754	746,708	774,779	805,770	837,941
Industrial Assessments	14,635	13,830	13,139	12,482	11,857	11,265	10,701
Sales Tax	370,583	404,298	428,948	458,159	490,414	526,018	564,522
Electric Franchise	77,760	88,100	97,440	98,902	100,385	101,891	103,419
Telephone Franchise	49,714	48,000	45,600	43,776	42,463	41,189	39,953
Gas Franchise	18,520	21,975	22,195	22,417	22,641	22,867	23,096
Other Franchise	16,269	16,002	16,578	17,026	17,485	17,957	18,442
Licenses & Permits	17,692	18,013	18,193	18,375	18,559	18,744	18,932
Intergovernmental	27,571	39,636	36,877	37,323	37,775	38,232	38,694
Oth Chg Serv	39,856	41,990	42,171	42,352	42,534	42,717	42,901
Direct Interfund	61,233	43,998	46,198	48,508	50,933	53,480	56,154
Indirect Interfund	11,031	14,887	15,036	15,186	15,338	15,491	15,646
Muni Courts Fines & Forfeits	48,827	44,067	47,800	48,278	48,761	49,248	49,741
Other Fines & Forfeits	2,424	2,391	2,415	2,439	2,463	2,488	2,513
Interest	6,414	9,500	10,973	10,973	10,973	10,973	10,973
Miscellaneous	16,253	20,574	12,498	12,623	12,749	12,876	13,005
Total Revenue	1,450,076	1,520,204	1,575,813	1,635,525	1,700,109	1,771,207	1,846,634
Percentage Change		4.84%	3.66%	3.79%	3.95%	4.18%	4.26%



Increased Costs

- Increase in employee health benefit insurance cost
- Increase in contribution to municipal pension plan
- Operating costs for new facilities
- Limited partnership annexations offset by increased revenue
- Higher interest rates for TRANS
- Higher fuel and electricity costs



Contract Escalators

- Solid Waste disposal contracts
- IT maintenance agreements
- Zoo contract
- Security and facility maintenance agreements



Police and Fire

- Police pension and pay increases
- Net increase of 80 police officers each year, after attrition
- Fire pay, and step pay increases based on collective bargaining agreement
- Fire pension based on actuarial report projections

Expenditures

	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>
Total Prior Year Operating Expenditures	1,375,614	1,435,366	1,496,028	1,573,385	1,610,436
Property Insurance	1,021				
Health Benefits	4,000	10,507	25,508	10,056	10,659
Civilian Pay Increases	7,038				
Operating Costs of New Facilities (Other than Fire)	2,014	1,789	1,630		
Library Materials	1,000				
Contract Escalation & Cost Increases	3,000	1,600	1,600	1,600	1,600
Electricity	5,401	223	4,250	(1,485)	0
Limited Purpose Annexations	4,000	1,000	1,000	1,000	1,000
More (Fewer) Retirees	(6,992)	500	500	500	500
Legislative Related Costs	650	(650)	650	(650)	650
HEC Refinancing	(3,390)				
Elections	(2,400)	2,400	(2,400)	2,400	(2,400)
Contingency	2,950				
Higher Interest Tax Anticipation Notes	380	1,000			
Municipal Pension	1,600	12,000			
Police Department	18,223	15,263	14,143	14,330	8,907
Fire Department	21,257	15,030	30,476	9,300	6,441
	1,435,366	1,496,028	1,573,385	1,610,436	1,637,793
Percentage Increase	4.34%	4.23%	5.17%	2.35%	1.70%
Expenditure Increase	59,752	60,662	77,357	37,051	27,357

Debt Service With FY06-FY10 Adopted CIP

(Dollars in thousands)	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>
Assessed Value	\$ 102,021,642	\$ 106,025,030	\$ 110,000,969	\$ 114,126,005	\$ 118,405,730	\$ 123,141,959	\$ 128,067,638
Growth Rate Assumed	2.16%	3.92%	3.75%	3.75%	3.75%	4.00%	4.00%
Tax Rate for Debt Service	0.18427	0.18391	0.19000	0.19000	0.19000	0.19000	0.19000
Tax Rate for Operations	0.46573	0.46359	0.45750	0.45750	0.45750	0.45750	0.45750
Total Tax Rate	0.65000	0.64750	0.64750	0.64750	0.64750	0.64750	0.64750
Tax Revenue for Debt Service	\$ 188,000	\$ 195,000	\$ 209,000	\$ 216,800	\$ 225,000	\$ 234,000	\$ 243,300
Tax Revenue for Operations	475,145	491,521	503,254	522,126	541,706	563,374	585,909
Variation from Certified Roll, including P&I	8,149	6,422	7,500	7,781	8,073	8,396	8,732
Total Tax Revenue	\$ 671,294	\$ 692,943	\$ 719,754	\$ 746,708	\$ 774,779	\$ 805,770	\$ 837,941
Increase in Debt Service	\$ 23,000	\$ 7,000	\$ 14,000	\$ 7,800	\$ 8,200	\$ 9,000	\$ 9,300
Increase (Decrease) in Tax Revenue for Operations	\$ (12,705)	\$ 14,649	\$ 12,811	\$ 19,153	\$ 19,872	\$ 21,991	\$ 22,871
Total Increase in Property Tax Revenue	\$ 10,295	\$ 21,649	\$ 26,811	\$ 26,953	\$ 28,072	\$ 30,991	\$ 32,171

Summary

	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>
Beginning Balance	88,216	120,042	130,279	123,726	109,726	109,726
Property Tax Revenues	671,294	692,943	719,754	746,708	774,779	805,770
Sales Tax	370,583	404,298	428,948	458,159	490,414	526,018
Franchise Revenue	162,263	174,077	181,813	182,120	182,974	183,904
Other Revenues	245,936	248,886	245,298	248,538	251,942	255,514
Total Revenues	1,450,076	1,520,204	1,575,813	1,635,525	1,700,109	1,771,207
Total Operating Expenditures	1,279,217	1,373,967	1,435,366	1,496,028	1,573,385	1,610,436
Transfers for Debt Service	188,000	195,000	209,000	216,800	225,000	234,000
Total Expenditures	1,467,217	1,568,967	1,644,366	1,712,828	1,798,385	1,844,436
Net Revenues Less Expenditures	(17,141)	(48,763)	(68,553)	(77,303)	(98,276)	(73,229)
Proceeds of Pension Bonds	48,599	59,000	62,000	20,000	10,000	0
Transfers and Other	1,028	0	0	0	0	0
Change in reserves/ Fund Balance Drawdown	(660)	0	6,553	14,000	0	0
Net Activity (The Gap)	31,826	10,237	0	(43,303)	(88,276)	(73,229)
Ending Fund Balance	120,042	130,279	123,726	109,726	109,726	109,726



Strategies For Achieving Balance

- ✓ Strategies Implemented or Underway.
 - Identify cost-cutting and productivity improvements within departments.
 - Maintain the capital improvement plan, continue to keep it affordable.
 - Explore refinancing opportunities of the general obligation debt, reducing the amount of increase for the next few years.
 - Increase collection rates on fines and forfeits.
 - Management of health care costs.
 - Houston style zero base review.
 - Franchise fee potential revenue increase.